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SUBJECT: IMPLICATIONS OF WFP'S ENDORSED BUDGET FOR 2004-2005
BY ITS EXECUTIVE BOARD AT THE THIRD REGULAR SESSION, ROME,
OCTOBER 20-24, 2003

REF: (A) ROME 4996

SUMMARY

1. At its third regular session (ref A), the Board took note of world Food Program's (WFP) Biennial Management Plan budget for 2004-2005, at a level of USD 4.8 billion, an increase of USD 1.6 billion (66 percent) compared with the 2002-2003 original budget estimate of USD 3.2 billion. Tonnage wise, the total estimated volume of delivery for 2004-2005 has been proposed at 8.7 million tons (excluding the Iraq Oil-for-Food Program), an increase of 59 percent over the 2002-2003 original budget estimate of 5.4 million tons. This budget breaks with tradition in being based on anticipated needs, instead of past commitments or projected donor funding. WFP is already the dominant player in the delivery of worldwide emergency food aid (68 percent in 2002) and now handles 39 percent of all global deliveries of food assistance, compared with 31 percent for non-governmental organizations (NGOs) and 30 percent supplied bilaterally. In U.S. Mission's view, the organization needs to reflect upon "how big is beautiful" in its quest for program interventions of highest quality and impact.

Background

2. The donor community made unprecedented contributions, worth USD 2.1 billion, to WFP's programs in 2003. Compared with 2002, overall donor contributions to operational activities (excluding the Iraq Oil-for-Food Program) were up 46 percent. This was driven by major crisis in Iraq, the Horn of Africa (Ethiopia and Eritrea), Afghanistan, southern Africa and elsewhere. The United States tapped into P.L. 480 Title II allocations and supplementary funding, the Bill Emerson Humanitarian Trust and Section 416 (b) resources.

3. What WFP sought in the budget presentation was endorsement of a major expansionist strategy. As per WFP's rationale, the budget endeavors to: a) raise funds for 100 percent of all approved programs, not just a certain percentage of each; and b) provide the technical support and emergency preparedness capacity to the organization necessary to do its work properly. In adopting the needs based approach, WFP sought to distance itself from its traditional (in their words) "very inefficient way of running a business by always playing catch-up."

The numbers

4. WFP's Biennial Management Plan budget for 2004-2005, at a level of USD 4.8 billion, is an increase of USD 1.6 billion (66 percent) compared with the 2002-2003 original budget estimate of USD 3.2 billion. Net expenditures are estimated at USD 4.4 billion, an increase of USD 1.47 billion, or 50 percent, compared to the original 2002-2003 estimate of USD 2.93 billion. Tonnage wise, the total estimated volume of delivery for 2004-2005 has been proposed at 8.7 million tons (excluding the Iraq Oil-for-Food Program), an increase of 59 percent over the 2002-2003 original budget estimate of 5.4 million tons. The budget, which is "zero-based" and "needs driven", thereby reflects the resources considered necessary to M DEWEY, AS/IO HOLMES, PRM/P, EUR/WE AND

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implement approved activities for 2004-2005, instead of focusing, as in the past, on estimated levels of fund raising.

15. On WFP's three major programming categories, the USD 3.9 billion direct operational cost biennium budget (the other part being USD 883 million in support costs) breaks out as follows:

a) development portfolio - against an estimated 2002-2003 expenditure of USD 393 million (1.14 million tons), WFP projects a 2004-2005 estimate of USD 539 million (an addition of USD 146 million). This is a 37 percent increase in value terms over the 2002-2003 estimates;

b) protracted relief and recovery (PRROs) - against a 2002-2003 estimate of USD 777 million (1.7 million tons), WFP projects a 2004-2005 estimate of 2.0 billion (an addition of USD 1.29 billion). This is a 158 percent increase in value terms over the 2002-2003 estimates;

c) emergency operations (EMOPs) - against a 2002-2003 estimate of USD 2.2 billion (5.8 million tons), WFP projects a 2004-2005 estimate of 1.25 billion (a downsizing of USD 984 million) This is a 44 percent decrease in value terms over the 2002-2003 estimates.

Note. As pointed out by the UN's Advisory Committee for Administrative and Budgetary Questions (ACABQ), the 2004-2005 budget does not include a provision for major emergencies, and that if such emergencies were to occur, the funds would need to be raised incrementally. End note.

How WFP plans to resource its 2004-2005 budget

16. WFP assumes that the United States will provide base support WFP to the tune of USD 2.2 billion over the biennium (USD 1.1 billion per year). Support to major emergencies will be additional. The other top nine donors would remain at current levels of support. All major OECD donors will be expected to contribute USD 2.00 per capita, which will generate an additional USD 500 million. Emerging (new) donors (e.g., China, India, Brazil, and Russia) will generate USD 100 million in contributions. Private sector donations will bring in USD 40-USD 50 million.

Concerns

17. WFP's proposed budget is based on its calculation of anticipated needs throughout the world, rather than upon past commitments or anticipated donor-funding availabilities. There is no WFP acceptance of any donor's position that "this is as much as we can give." A number of donors viewed WFP's proposed substantive increases as both overly ambitious and unrealistic. Japan commented "we are not in a position to reach the USD 2.00 per capita, as this would mean doubling our contribution to WFP."

18. There has been an overall decline in international food aid by a third since 1999; with few exceptions (i.e., major emergencies), it is clear that food assistance in general is less of a donor priority and it remains highly unlikely thatS, PRM/P, EUR/WE AND

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this situation is going to change for 2004-2005.

19. By far the United States has been, is and will continue to be the leading donor to WFP. Many donors do not believe it is in the interest of the organization to make WFP even more dependent on U.S. assistance (presently at 63 percent).

110. The vision of the European Commission and some other OECD members for WFP is for a smaller organization working exclusively with cash in well-defined and limited "niche" circumstances.

111. In these tight budgetary times, WFP must effect cost savings through the accelerated closure of ineffective programs, make better (more nimble) use of existing assets,

focus more (on less costly) local hires to staff its operations, etc. Note. There was no hint in the proposed budget as to what, if anything, would be "shed" in the 2004-2005 management/budget plan. End note.

112. Given that WFP's budget is tonnage driven (i.e., it will need 8.9 million tons to feed x millions of beneficiaries over the biennium), a widespread drought and heat-wave this past summer in Europe have witnessed increased international cereal prices (particularly wheat), mostly in response to a deterioration of prospects for the European crop. Hence food aid budgets will probably procure less commodity due to price hikes, at least in 2004.

Comment

113. WFP is already the dominant player in the delivery of worldwide emergency food aid (68 percent in 2002) and now handles 39 percent of all global deliveries of food assistance, compared with 31 percent for non-governmental organizations (NGOs) and 30 percent supplied bilaterally. If the worldwide food aid availability "pie" per annum hovers around 10 million tons, this budget if attained, would push WFP's market "share" up to 45 percent per annum. It would be an even higher percentage if the global food aid "pie" shrinks. The organization needs to reflect upon "how big is beautiful" in its quest for program interventions of highest quality and impact. Hall

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